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# Going Underground in Silicon Valley

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**SAN JOSE, Calif.** — **HENRY JACKSON**, 44 years old and known as One-Eyed Jack, is waiting for his trial to begin, where he will face charges of grand larceny, conspiracy, and the buying, receiving and possession of stolen and altered property. The courtroom setting is familiar to Mr. Jackson, who is currently out on bail. He has been convicted four times on lesser counts, involving passing bad checks, forgery and burglary.

This trial is different. In pretrial hearings over the last year, One-Eyed Jack has not been listening to the district attorney's office describe him as a small-time criminal, but rather as a kingpin in the electronics underground. Mr. Jackson has pleaded not guilty to all the charges.

The case against Mr. Jackson alleges that he both led a crime ring that stole 10,000 memory chips from the Intel Corporation, Silicon Valley's giant semiconductor manufacturer, and remarketed as many as 100,000 other similar devices, most of them stolen. The chips he is accused of stealing are Intel's 32K Epmos's, a highly specialized computer chip, worth \$100 apiece at the time. But more important to the prosecutor's office and Federal investigators is the range of their application in electronic equipment — from harmless video arcade games to guidance systems aboard fighter aircraft.

The Jackson trial marks the most important case to date involving the so-called gray market in electronics. The gray market has in recent years grown into a vast underground of electronic devices and computer chips, some stolen, some rarely surplus. Law enforcement officials contend that the market is both undermining national security and leading to growing criminal activity in the previously peaceful electronics industry.

It is called the gray market because much of the business of selling surplus chips back and forth is entirely

legal, but an increasing portion is becoming a true black market.

When asked to estimate the size of the gray market in the United States, most police and Federal agents guess \$20 million, then quickly add that the number may be three or four times greater. What does appear certain is that though loosely knit, it is becoming increasingly organized; that it suffers the same economic cycles as the rest of the electronics industry, and that it is a key source of goods for less scrupulous domestic manufacturers, for foreign competitors such as Japan, and for embargoed countries such as the Soviet Union.

Indeed, concern over the impact on national security of such activities was raised last year in a speech by William H. Webster, Director of the Federal Bureau of Investigation. "United States technology," he said, "whether it's military or purely industrial, is spy target No. 1 for foreign intelligence operations. I don't think there has been another time in our history when America's business has been under such a sophisticated espionage attack."

Many of the details in the Jackson caper come from Mr. Jackson's own statements to the police at the time of his arrest, as well as from statements by his accomplices, including Mr. Jackson's secretary. However, it is expected by the district attorney's office that Mr. Jackson's attorneys will move to have those statements ruled inadmissible in the trial.

The Intel chips were allegedly stolen from a fenced storage room protected by alarms, 24-hour security guards, an employee badge system, after-hours sign-in logs, security audits, spot checks and closed-circuit television. The police say that Mr. Jackson circumvented all the security by having an Intel security guard as an accomplice — Albert Williams, who is also charged in the case and has also pleaded not guilty. Allegedly, Mr. Williams carried the chips out of the storeroom in the lining of his leather jacket, and, at times, more blatantly in plastic garbage bags.

(The recruiting of security guards into the underground is a growing problem in Silicon Valley, law enforcement officials say, and they add that thus far, little has been done by the companies themselves to blunt this activity.)

According to early statements by Mr. Williams, he and Mr. Jackson got cooperation in the heist from a highly placed unnamed executive at Intel. Mr. Williams said that this executive prepared the necessary paperwork to initiate the production of the 10,000 memory chips to be stolen, and by later destroying the papers, made the theft possible. When Intel's officials discovered the theft, The executive was never prosecuted, much less named, and references to him do not appear in the court records.

The use of inside agents was the most effective technique available to Mr. Jackson. But when that was not possible, he had others. In a secretly taped interview with a private investigator, one Jackson employee described how his boss would sometimes use a pretty girl to distract workers at the loading dock, while someone else carted off goods. According to statements by Mr. Jackson, 20 percent of all thefts occurred during the shipping and storing of chips.

The stolen chips, which were fresh off the assembly line and as yet unmarked and uncircled for the standard 40 percent rejects, were then taken to a Sunnyvale, Calif., apartment and stamped with the Intel logo. From there, the chips were taken to Southern California and sold to any buyer with cash, and thus began their long journey through the electronics gray market.

But the alleged Jackson theft was not the first time Intel had been hit by thieves. In April 1979, Michael Lee, a maintenance supervisor at Intel, carried thousands of dollars in memory chips out of a storage area in the false bottom of a box. Mr. Lee was convicted in May 1980 of grand larceny and given three years probation. In the same case, Glen Johnson, owner of Glen Manufacturing Inc., an elec-